

Message Text

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44

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-04 NSC-05 RSC-01

CIEP-01 TRSE-00 SS-20 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-05 NSAE-00 XMB-02 OPIC-06 LAB-01

SIL-01 PA-01 PRS-01 USIA-06 DRC-01 /077 W

----- 090555

R 111100Z OCT 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 5980

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 7805

E.O. 11652: N/A

TAGS: EFIN, BT

SUBJECT: BRAZILIAN RESERVE POSITION

REF: A) STATE 219582 B) BRASILIA 7477 AND 7203

1. EMBASSY COMMENT REGARDING FIVE YEAR MINIMUM TERMS AND IMPLICATIONS IF FOREIGN CAPITAL FLOWS DO NOT RESPOND ADEQUATELY, WAS CONTAINED IN BRASILIA 7203, REPEAT 7203. THIS REFERENCE WAS APPARENTLY GARBLED IN TRANSMISSION OF BRASILIA 7474.

2. SPECULATION ON RESERVE DROP OF \$3 TO 3.5 BILLION IS MOST DIRE FORECAST WE HAVE HEARD TO DATE, THOUGH CONGEN SAO PAULO REPORTS THAT PESSIMISM AMONG LOCAL BANKERS REFLECTS THIS VIEW. OTHER PREDICTIONS, INCLUDING FROM SOME US BANKERS, HAVE BEEN IN NEIGHBORHOOD OF \$1 BILLION DROP, POSSIBLY TO \$5 BILLION LEVEL AT END OF YEAR. OUTCOME, OF COURSE, DEPENDS ON GOB ABILITY TO ATTRACT SUFFICIENT AMOUNTS OF FOREIGN CAPITAL DURING FOURTH QUARTER.

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3. GOB AUTHORITIES HOPE THAT THEY CAN OBTAIN ARAB MONEY

TO MEET PART OF BALANCE OF PAYMENTS NEEDS. BANK OF BRAZIL PRESIDENT CALMON DE SA, UPON RETURN FROM IMF/IBRD ANNUAL MEETINGS, ANNOUNCED THAT SAUDI ARABIA AND KUWAIT WILL PARTICIPATE IN AN ARAB CONSORTIUM TO FINANCE BRAZILIAN PROJECTS IN ENERGY AND TRANSPORTATION. DE SA SAID THAT LOAN OF \$100 MILLION WOULD BE CHanneled THROUGH NATIONAL HIGHWAY AGENCY, DNER, AND THAT GOB WOULD ALSO ISSUE \$25 MILLION OF TREASURY BONDS IN MIDEAST. REPRESENTATIVE OF A MAJOR US BANK, IN CONVERSATION WITH EMBASSY OFFICER, REACTED TO ANNOUNCED DNER BORROWING WITH SKEPTICISM AND COMMENTED THAT A LARGE EURODOLLAR LOAN PACKAGE FOR DNER EARLIER IN THE YEAR REQUIRED SO MUCH ARM-TWEISTING BY GOB AUTHORITIES THAT THE EXPERIENCE PROBABLY DIMINISHED SOME LENDER ENTHUSIASM TOWARD BRAZIL.

4. CENTRAL BANK OFFICIALS IN PRIVATE CONVERSATIONS ACKNOWLEDGE THAT THERE WILL BE "SOME" ADSTIONAL RESERVE DRAIN BY END OF THE YEAR. ON OCTOBER 8 THE DIRECTOR OF THE CENTRAL BANK'S RESEARCH DEPT. TOLD DXBASSY OFFICER THAT HOPED-FOR INCREASE IN FINANCIAL INFLOW FOLLOWING REDUCTION OF MINIMUM TERMS HAD NOT YET MATERIALIZED AND THAT, WHILE IT WAS STILL TOO EARLY TO REACH DEFINITE JUDGMENT, BANK WAS CONSIDERING REDUCTION OF WITHHELD IMCOME TAX ON FOREIGN INTEREST PAYMENTS AS NEXT POSSIBLE MEASURE TO STIMULATE FINANCIAL FLOW. PRESS ON OCTOBER 9 MENTIONED POSSIBILITY OF COMPLETE ELIMINATION OF WITHHOLDIN TAX, WHICH REPORTEDLY WOULD LOWER COST OF FOREIGN BORROWING BY 4.5 PERCENTAGE POINTS FROM CURRENT COST OF 40 PERCENT. PRESS HAS ALSO REPORTED THAT SOME NATIONAL BANKERS ARE SUGGESTING THAT MINIMUM TERMS REQUIREMENT BE REPLACED BY AMONTH TO MONTH SYSTEM OF SEPARATE QUOTAS FOR DIFFERENT LOAN MATURITIES WITH OVERALL EXTERNAL DEBT CEILING OF \$25 BILLION.

5. IT SEEMS CERTAIN NOW THAT ONLY A DRAMATIC INCREASE IN CAPITAL FLOWS OR SPECIAL CIRCUMSTANCES, SUCH AS A LARGE B/P SHORT-TERM BORROWING, WILL ALLOW GOB TO MAINTAIN RESERVE TARGET OF \$6 BILLION. EMBASSY'S ESTIMATION FOR 1974 BALANCE OF PAYMENTS OUTCOME RANGES FROM OUR "REASONABLY OPTIMISTIC" PROJECTION OF \$1.4 BILLION DEFICIT TO "PESSIMISTIC" PROJECTION OF \$2.6 BILLION DEFICIT. BREAKDOWN AS FOLLOWS:

\$ BILLIONS

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EXPORTS	7.5	
IMPORTS	12.5	
SERVICES	2.0	
CURRENT ACCOUNT BALANCE		7.0
DEBT AMORTIZATION	1.8	
DIRECT INVESTMENT	1.0	
FINANCIAL LOANS, JAN-AUG		

MEDIUM AND LONG-TERM	3.6	
SHORT-TERM	0	
ERRORS AND OMISSIONS, JAN-AUG.	0.3	
ESTIMATED FINANCIAL FLOWS, SEP-DEC.		
OPTIMISTIC-PESSIMISTIC	2.5	1.3
PROJECTED DEFICIT	1.4	2.6
CRIMMINS		

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